

L+R

Date 17 Oct 83

ROUTING AND TRANSMITTAL SLIP

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. DDA/EO	R	18 OCT 1983
2.		
3.		
4.		

Action	File	Note and Return
Approval	For Clearance	Per Conversation
As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

RE [redacted] - I took the opportunity to share the draft Notice on the Criminal Intellig Act w/ Compt. His reaction is attached - you may want to pass on to D/OF. We have previously discussed the Vulnerability Assessment & decided it was not necessary.

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post)	Room No.—Bldg.
	6E18
	Phone No.

Date 18 OCT 1983

ROUTING AND TRANSMITTAL SLIP

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
D/OF		

Action	File	Note and Return
Approval	For Clearance	Per Conversation
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Coordination	Justify	

REMARKS

[redacted] suggested you might be interested in the attached.

[redacted]

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post)	Room No.—Bldg.
	2D24
	Phone No.

EO/DDA

Central Intelligence Agency



Washington, D.C. 20505

17 OCT 1983

Comptroller
Central Intelligence Agency
Washington, D.C. 20505

NOTE FOR: Deputy Inspector General

Carroll,

Thanks for the opportunity to review the draft notice regarding the Federal Manager's Financial Integrity Act of 1982. For what it's worth, I believe we should better define how we intend to deal with the "vulnerability assessments" issue and include appropriate coverage of this subject in the Agency notice. I also suggest deleting the phrase "...but not absolute..." in paragraph 2, page 1 of the notice. Nothing is absolute out doubt the wisdom of advertising it in the context of this notice. Finally, shouldn't we designate a senior Agency internal control official in the notice?

Attached are copies of some supplemental instructions on the subject that came to our attention; thought you may find them useful. For later reference, [redacted] [redacted] will be our point of contact on this subject.

Daniel A. Childs, Jr.

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SEP 26 1983

MEMORANDUM FOR THE DESIGNATED AGENCY SENIOR INTERNAL CONTROL
OFFICIALS

MEMBERS OF THE ASSISTANT SECRETARIES FOR
MANAGEMENT GROUP

MEMBERS OF THE PRESIDENT'S COUNCIL ON INTEGRITY
AND EFFICIENCY

MEMBERS OF THE COORDINATING CONFERENCE ON
INTEGRITY AND EFFICIENCY

FROM:

HAROLD I. STEINBERG
ASSOCIATE DIRECTOR
FOR MANAGEMENT

SUBJECT:

Year-end Internal Control Report

Attached are supplemental instructions for preparation of the
internal control report required by the Federal Managers'
Financial Integrity Act.

Prior to the September 8-9, 1983 Joint ASMG and PCIE
Conference, a draft of these instructions was distributed to
attendees. The instructions were discussed at the Conference
and the one change suggested has been incorporated. Therefore,
these instructions are furnished for guidance in preparing the
initial internal control assurance letters and report.

If you or your staff have questions about the content of the
report or assurance letters, please call me at 395-4657, or
Fred Heim at 395-3122.

Attachment

OFFICE OF MANAGEMENT AND BUDGET
INSTRUCTIONS FOR PREPARATION OF THE
INITIAL INTERNAL CONTROL REPORT
REQUIRED BY THE
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT
AND ASSURANCE LETTERS REQUIRED BY
OMB CIRCULAR A-123 (REVISED)

Instructions for Preparation of Initial Assurance Letters and the Internal Control Statement (and Report)	Page 1
Sample Letter for Written Assurance to the Agency Head from Designated Senior Official	Appendix C <u>1/</u>
Sample Letter for Written Assurance to the Agency Head from the Head of an Organizational Unit	Appendix D <u>1/</u>
Sample Letter for Comments to the Agency Head from the Inspector General or Equivalent	Appendix E <u>1/</u>
Sample Internal Control Statement (and Report)	Appendix F <u>1/</u>

1/ Refers to Appendix designation in the OMB Guidelines for the
Evaluation and Improvement of and Reporting on Internal Control
Systems in the Federal Government

INSTRUCTIONS FOR PREPARATION OF INITIAL ASSURANCE LETTERS AND THE INTERNAL CONTROL STATEMENT (AND REPORT)

The sample assurance letters and report included as Appendices C through F of OMB's Internal Control Guidelines are the basic models for this initial reporting period. The following is additional guidance:

- o If a self-evaluation of the system of internal accounting and administrative control was not conducted, or the evaluation was insufficient when compared to the Guidelines, the reporting official should say so simply, rather than attempt to modify the sample assurance letter or statement (and report).
- o Reporting officials may describe the review process in detail. The expanded description should be provided in an attachment, rather than in the body of the letter or statement (See Attachment A to Appendices C, D, and F).
- o The material weaknesses reported in the assurance letters and the statement and report should be organized into the following categories:
 - Material Weaknesses For Which Corrective Actions Have Been Taken
 - Department (Organization)-Wide Material Weaknesses Requiring Corrective Actions
 - Organization (Program) Specific Material Weaknesses Requiring Corrective Actions

The plans and schedules for correcting such material weaknesses presented in the attachment to the letter or report should be organized in the same manner. The attachment can also contain plans and schedules of weaknesses not considered material enough for the letter or report, and brief descriptions of steps taken to correct the material weaknesses that are already corrected (See Attachment B to Appendices C, D, and F).

- o Material weakness is defined in the Guidelines and Circular A-123 (Revised) as "a situation in which the designed procedures or degree of operational compliance therewith does not provide reasonable assurance that the objectives of internal control specified in the Act are being accomplished." The material weaknesses to be included in the report to the President and the Congress should consist of matters which would be of significance to the President and the Congress. The material weaknesses to be included in the assurance letters to the agency head should be matters that would be of significance to him or her. The determination of what is a significant matter for the agency head should be based on the fact that the agency head has an operational responsibility for the agency:

APPENDIX C

SAMPLE LETTER FOR WRITTEN ASSURANCE TO THE

AGENCY HEAD FROM DESIGNATED SENIOR OFFICIAL

Dear (agency head):

In accordance with your delegation of responsibilities to me, I have directed an evaluation of the system of internal accounting and administrative control of (name of agency) in effect during the year ended _____. As required by the Federal Managers Financial Integrity Act, this evaluation has been conducted in accordance with Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government, issued by the Director of the Office of Management and Budget, in consultation with the Comptroller General, and accordingly included an evaluation of whether the system of internal accounting and administrative control of (name of agency) was in compliance with the standards prescribed by the Comptroller General. Attachment A provides additional information on how the evaluation was conducted. 1/

The objectives of the system of internal accounting and administrative control of the (name of agency) are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. Estimates and judgments are required to assess the expected benefits and related costs of control procedures. Furthermore, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, Congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to the risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. Nonetheless, I have taken the necessary measures to assure that the evaluation, identified in the first paragraph, has been conducted in a thorough and conscientious manner.

The results of the evaluation, assurances given by heads of organizational units, and other information provided indicate that the system of internal accounting and administrative control of (name of agency) in effect during the year ended (date), taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved within the limits described in the preceding paragraph. The evaluation, however, did disclose the following material weaknesses^{2/}:

Weaknesses For Which Corrective Actions Have Been Taken^{3/}

(List of Material Weaknesses)

Department-Wide Material Weaknesses Requiring Corrective Actions^{3/}

(List of Material Weaknesses)

Organization Specific Material Weaknesses Requiring Corrective Actions^{3/}

(List of Material Weaknesses)

Attachment B to this report contains the recommended plans and schedules for correcting such weaknesses^{2/} and the status of actions taken to correct weaknesses identified in prior years' reports.^{4/}

(SIGNATURE)

- 1/ Attachment A provides an optional opportunity for the designated senior official to describe the department's review process in detail. If it is not included, Plans and Schedules for Correcting Material Weaknesses (Attachment B) should be relabeled as Attachment A.
- 2/ If there are no material weaknesses, this sentence should be deleted, and there would be no list or portion of Attachment B containing plans and schedules for correcting such weaknesses.
- 3/ The material weaknesses should be described in one or two sentences. Additional information can be presented in Attachment B. If there are no weaknesses in this category, the heading should be deleted.
- 4/ If there were no actions taken during the past year to correct weaknesses, or no identified weaknesses for which corrective actions remain to be taken, this phrase should be deleted.

ATTACHMENT A

DESCRIPTION OF THE CONDUCT
OF THE INTERNAL CONTROL EVALUATION

SUGGESTED CONTENTS

A brief summary of the evaluation process, including:

- o A description of the manner of selecting assessable units and a specification of the number of assessable units.
- o The results of the vulnerability assessments in terms of the number of assessable units listed as highly vulnerable, moderately vulnerable, or of low vulnerability; or by some other manner.
- o The actions taken to address the results of the vulnerability assessments.
- o Extent of internal control reviews performed during the reporting period.
- o Internal control reviews planned for future periods.

ATTACHMENT B

PLANS AND SCHEDULES FOR
CORRECTING MATERIAL WEAKNESSES

SUGGESTED CONTENTS

This Attachment will contain the plans and schedules for correcting the material weaknesses listed in the body of the letter. The weaknesses should be divided into the same categories as in the letter: Weaknesses for which corrective actions have been taken; department-wide material weaknesses requiring corrective actions; and organization specific material weaknesses requiring corrective actions.

The narrative for each material weakness should be comprised of (a) three or four sentences describing the weakness, and (b) a list of major steps and scheduled milestones for correcting the weakness. Approximately 3/4 of a page would be appropriate for each material weakness.

For material weaknesses already corrected, plans would be unnecessary and probably inappropriate. Consideration should be given, however, to providing a brief description of the actions taken.

SAMPLE LETTER FOR WRITTEN ASSURANCE TO THE
AGENCY HEAD FROM THE HEAD OF AN ORGANIZATIONAL UNIT

Near (agency head):

As (title) of the (name of organizational unit) of the (name of agency), I am cognizant of the importance of internal controls. I have taken the necessary measures to assure that the evaluation of the system of internal control of (name of organizational unit) has been conducted in a conscientious and thorough manner in accordance with Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government, issued by the Director of the Office of Management and Budget, in consultation with the Comptroller General, and accordingly included an evaluation of whether the system of internal accounting and administrative control of (name of agency) was in compliance with standards prescribed by the Comptroller General. Attachment A provides additional information on how the evaluation was conducted.^{1/}

The objectives of the system of internal accounting and administrative control of the (name of agency) are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. Estimates and judgments are required to assess the expected benefits and related costs of control procedures. Furthermore, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, Congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to the risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of the evaluation, performed in accordance with the guidelines identified in the first paragraph, and other information provided indicate that the system of internal accounting and administrative control of (organizational unit) in effect during the year ended (date), taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved within the limits described in

the preceding paragraph. The evaluation, however, did disclose the following material weaknesses^{2/}:

Weaknesses For Which Corrective Actions Have Been Taken^{3/}

(List of Material Weaknesses)

Organization-Wide Material Weaknesses Requiring Corrective Actions^{3/}

(List of Material Weaknesses)

Program Specific Material Weaknesses Requiring Corrective Actions^{3/}

(List of Material Weaknesses)

Attachment B to this report contains the (name of organizational unit's) plans and schedules for correcting such weaknesses,^{2/} and the status of actions taken to correct weaknesses identified in prior years' reports.^{4/}

(SIGNATURE)

- 1/ Attachment A provides an optional opportunity for an organizational unit to describe its review process in detail. If it is not included, the Plans and Schedules for Correcting Material Weaknesses (Attachment B) should be relabeled as Attachment A.
- 2/ If there are no material weaknesses, this sentence should be deleted, and there would be no list or portion of Attachment B containing plans and schedules for correcting such weaknesses.
- 3/ The material weaknesses should be described in one or two sentences. Additional information can be presented in Attachment B. If there are no weaknesses in this category, the heading should be deleted.
- 4/ If there were no actions taken during the past year to correct weaknesses, or no identified weaknesses for which corrective actions remain to be taken, this phrase should be deleted.

ATTACHMENT A

DESCRIPTION OF THE CONDUCT
OF THE INTERNAL CONTROL EVALUATION

SUGGESTED CONTENTS

A brief summary of the evaluation process, including:

- o A description of the manner of selecting assessable units and a specification of the number of assessable units.
- o The results of the vulnerability assessments in terms of the number of assessable units listed as highly vulnerable, moderately vulnerable, or of low vulnerability; or by some other manner.
- o The actions taken to address the results of the vulnerability assessments.
- o Extent of internal control reviews performed during the reporting period.
- o Internal control reviews planned for future periods.

ATTACHMENT B

PLANS AND SCHEDULES FOR
CORRECTING MATERIAL WEAKNESSES

SUGGESTED CONTENTS

This Attachment will contain the plans and schedules for correcting the material weaknesses listed in the body of the letter. The weaknesses should be divided into the same categories as in the letter: Weaknesses for which corrective actions have been taken; organization-wide material weaknesses requiring corrective actions; and program specific material weaknesses requiring corrective actions.

The narrative for each material weakness should be comprised of (a) three or four sentences describing the weakness, and (b) a list of major steps and scheduled milestones for correcting the weakness. Approximately 3/4 of a page would be appropriate for each material weakness.

For material weaknesses already corrected, plans would be unnecessary and probably inappropriate. Consideration should be given, however, to providing a brief description of the actions taken.

SAMPLE INTERNAL CONTROL STATEMENT(AND REPORT, IF APPLICABLE)^{1/}

Dear Mr. President:

An evaluation of the system of internal accounting and administrative control of (name of agency) in effect during the year ended (date) was performed in accordance with Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government, issued by the Director of the Office of Management and Budget, in consultation with the Comptroller General, as required by the Federal Managers' Financial Integrity Act of 1982, and accordingly included an evaluation of whether the system of internal accounting and administrative control (name of agency) was in compliance with the standards prescribed by the Comptroller General. Attachment A provides additional information on how the evaluation process was conducted.^{2/}

The objectives of the system of internal accounting and administrative control of the (name of agency) are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

APPENDIX E

SAMPLE LETTER FOR COMMENTS TO THE AGENCY HEAD

FROM THE INSPECTOR GENERAL OR EQUIVALENT

Dear (agency head):

I have conducted a limited review to determine whether the evaluation of the system of internal accounting and administrative control, as described in Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government, issued by the Director of the Office of Management and Budget, in consultation with the Comptroller General, has been carried out* in a reasonable and prudent manner in the (agency) for the year ended (date). During this limited review, nothing came to my attention that would indicate that the (agency) did not comply with the above-mentioned guidelines.

(SIGNATURE)

* If this statement cannot be made, revise to provide a statement of the work done.

The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. Estimates and judgments are required to assess the expected benefits and related costs of control procedures. Furthermore, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, Congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to the risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of the evaluation described in the first paragraph, assurances given by appropriate (name of agency) officials, and other information provided indicate that the system of internal accounting and administrative control of (name of agency) in effect during the year ended (date), taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved within the limits described in the preceding paragraph. The evaluation, however, did disclose the following material weaknesses^{3/}:

Material Weaknesses For Which Corrective Actions Have Been Taken^{4/}

(List of Material Weaknesses)

Department-Wide Material Weaknesses Requiring Corrective Actions^{4/}

(List of Material Weaknesses)

Organization Specific Material Weaknesses Requiring Corrective Actions^{4/}

(List of Material Weaknesses)

Attachment B to this statement contains the (name of agency) plans and schedules for correcting such weaknesses,^{3/} and the status of actions taken to correct weaknesses identified in prior years' reports.^{5/}

(SIGNATURE)

- 1/ If material weaknesses in systems subject to these guidelines are found, this sample constitutes the statement and report required by the Act. If material weaknesses are not found, this sample, as adjusted, constitutes the statement required by the Act.
- 2/ Attachment A provides an optional opportunity for the department to describe its review process in detail. If it is not included, the Plans and Schedules for Correcting Material Weaknesses (Attachment B) should be relabeled as Attachment A.
- 3/ If there are no material weaknesses, this sentence should be deleted, and there would be no list or portion of Attachment B containing plans and schedules for correcting such weaknesses.
- 4/ The material weaknesses should be described in one or two sentences. Additional information can be presented in Attachment B. If there are no weaknesses in this category, the heading should be deleted.
- 5/ If there were no actions taken during the past year to correct weaknesses, or no identified weaknesses for which corrective actions remain to be taken, this phrase should be deleted.

ATTACHMENT A

DESCRIPTION OF THE CONDUCT
OF THE INTERNAL CONTROL EVALUATION

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- o Internal control reviews planned for future periods.

ATTACHMENT B

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CORRECTING MATERIAL WEAKNESSES

SUGGESTED CONTENTS

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